

# **THE LEONARD LETTER**

*A weekly electronic newsletter*

*Bill Leonard, Member*

*State Board of Equalization*

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*“Celebrity-worship and hero-worship should not be confused. Yet we confuse them every day, and by doing so we come dangerously close to depriving ourselves of all real models. We lose sight of the men and women who do not simply seem great because they are famous but are famous because they are great. We come closer and closer to degrading all fame into notoriety.” Daniel J. Boorstin, The Image*

## **UNDER THE DOME**

### **\*\*\*The Missing Cap\*\*\***

The legislature and Governor Schwarzenegger reached agreement last week to place a \$15 billion bond on the March ballot to help fill the current year's budget hole and establish a reserve fund for future lean years. While I am heartened that an agreement was reached, I am disappointed that it does not include a constitutional spending cap.

True, a spending cap would not solve the Gray Davis budget crisis, but that is not its purpose. The purpose of a spending cap is to control the spending behavior of future governors and legislatures. The fact that the Gann Spending Limit of 1979 worked well for more than a decade is abundant testimony to the usefulness of the cap. The cap is necessary because governments can get away with irresponsible spending in ways that neither families nor businesses can.

The problem that Governor Schwarzenegger will face next year is that legislators have no political incentive to control the total spending. Each legislator has an individual list of budget priorities and local projects, which, standing alone, would result in a balanced budget. The problem is that when you add 120 legislators' lists of budget priorities together, the total is way over the amount of available revenue. Thus, the result is an unbalanced budget and spending based on fantasy revenues.

When I was a legislator, I was never politically punished for going home to defend my budget priorities. The only question I got is why I could not control the excessive spending habits of other legislators. It is a good question, and the only answer is a constitutional limit on spending. If the Governor cannot get the legislature to enact one, then he should go directly to the people and put it on the ballot by initiative.

### **\*\*\*The Ruse is in the Rules\*\*\***

Americans for Tax Reform has recently weighed in on the Streamlined Sales Tax Project (SSTP) and their words should resonate with policymakers who are enchanted with the SSTP plans. The SSTP is being touted by the National Governors' Association and the National Council of State Legislatures as a forum for states to talk about tax simplification. The problem is that when government officials get together to talk about taxes, simplification is never the accomplishment. Indeed, SSTP is merely a ruse to raise taxes and taxpayers need to understand this.

SSTP is the means by which you will one day be charged sales tax on all your Internet purchases. For example, ATR points out that SSTP claims to be tax neutral and committed to allowing each state to determine what is taxable. Taxpayers in Minnesota would disagree. Until their state's conformance with SSTP, they only paid sales tax on items purchased with a nexus to their state. Now they pay a new tax on items purchased out of state and they pay sales tax on shipping, handling and postage.

For more discussion on how SSTP could affect your wallet, see <http://www.atr.org/pdffiles/110603brief-SSTP.pdf>

### **\*\*\*Speaking of Tax Abuse\*\*\***

Leonard Letter readers may recall the case of Gil Hyatt, the former California businessman who moved to Nevada only to be tracked and harassed by the Franchise Tax Board. FTB agents trespassed on his property, rummaged through his trash, intimidated his neighbors, friends and business associates and otherwise attempted to bully him into paying income taxes to a state where he no longer resided. Mr. Hyatt took his case to the U.S. Supreme Court, which ruled against such tax agent thuggery. He wrote to me recently to share an article about his experience, and that article had several other examples of state tax abuse that you need to know about, especially as proposals like the SSTP, above, seemingly push us toward a unified tax collection nightmare. The Lincoln Heritage Institute article notes:

- 1) "Pennsylvania's tax collection bureau lodged a criminal complaint and levied a fine of \$352 against a 17 year-old for failing to file a local government income tax return declaring \$316 she earned as a part-time swim instructor – even though the entire \$3.16 in taxes due had already been withheld from the teenager's paycheck."
- 2) "The Kentucky Revenue Cabinet ordered 25,000 taxpayers to pay a late-filing penalty despite the fact that all had filed timely returns."
- 3) "Several east coast states have assembled a tax cartel to share information about residents' out-of-state purchases in order to collect so-called 'use' taxes for items such as furniture and electronics."

The article ranks our own FTB as the worst offender though, so we all owe thanks to Mr. Hyatt for fighting on our behalf.

## **FIRE AFTERMATH**

### **\*\*\*Lessons from Tragedy\*\*\***

I recently read the California Department of Forestry and Fire Protection's analysis of the death of Firefighter Steve Rucker in the San Diego wildfire. Three other firefighters were injured. The report was dramatic but its instructional value cannot be lost. The house these firefighters were protecting was at the top of a steep curving ten-foot wide, 490-foot long cement driveway that was overgrown with brush. Fuel, wind and topography all came into play for this tragedy. Flames were nearly 80 feet high and the fire spread faster than 16 miles per hour meaning that it took less than two minutes for the fire to race from the bottom of the slope to the top where the fire crew was with the house. The crew had very little time to react but began to retreat into the house. Unfortunately, the house had a rolled paper and tar roof and a large wooden deck, allowing it to catch fire quickly despite the firefighters' use of water. The huge advancing flames and quick wind overtook the firefighters on their way into the house and engineer Rucker died on the patio. His colleagues attempted to find him but could not see or breathe well enough. The remaining firefighters made it to the engine and began to drive down the driveway. The report says, "Heavy dark smoke obscures the view and Engineer #1 feels his way, using the feel of the tires dropping off the edge of the pavement to make corrections."

Firefighters who read the report will draw out lessons about lookouts, safety zones and communications. We can be reminded of the need to upgrade and maintain our properties to give firefighters the best chance of saving our homes and their own lives. In hindsight this was a tragedy waiting to happen. When we put our public servants in harm's way we must recognize that their lives are more important than our property.

## **MISCELLANY**

### **\*\*\*Three More Words to Know\*\*\***

Each week, the Leonard Letter features a few of the words from a list of 100 words that some educators say every high school student should know. The full list may be viewed at

[http://www.houghtonmifflinbooks.com/booksellers/press\\_release/100words/](http://www.houghtonmifflinbooks.com/booksellers/press_release/100words/).

82. Subjugate (v)--- To bring under control: *Governor Schwarzenegger is attempting to subjugate the legislature's desire to spend.*

83. Suffragist (n) --- An advocate of the extension of political voting rights, especially to women: *In 1911 California's male voters approved a statewide referendum on women's right to vote by a wide margin, making California the sixth state in the nation to approve women's suffrage.*

84. Supercilious (adj) --- Feeling or showing haughty disdain: *In rejecting the Governor's call for a spending cap, the legislature has demonstrated its supercilious attitude toward voters' demand for reform.*

## **BOE AND LEGISLATIVE DATES**

**December 25, 2003**--- Christmas Holiday

**January 1, 2004** --- New Year's Holiday

**January 5, 2004** --- Legislature reconvenes in Regular Session.

**January 10, 2004** --- Governor must submit budget to Legislature.

**January 19, 2004** --- Rev. Martin Luther King holiday.

**January 27, 2004** --- BoE meets in Sacramento.

**January 31, 2004** --- Last day for bills introduced in 2003 to pass.

**February 20, 2004** --- Last day to introduce bills this session.

## **NOTABLE DATES/ HISTORY**

**December 15, 1791** --- Bill of Rights ratified when Virginia gave its approval

**December 16, 1773** --- The Boston Tea Party occurs when American colonists board a British ship and dump overboard more than 300 chests of tea to protest high taxes.

**December 17, 1777** George Washington's army returns to Valley Forge, PA

**December 18, 1916** --- The Battle of Verdun (France), one of the bloodiest WWI engagements, ends after 10 months and massive losses to both sides

**December 19, 1776** --- Thomas Paine published his first "American Crisis" essay, in which he wrote, "These are the times that try men's souls."

**December 19, 1941** --- U.S. Office of Censorship created to control info pertaining to WWII

**December 20, 1803** --- Louisiana Purchase formally transferred from France to U.S. for \$27 million

**December 20, 1820** --- Missouri imposes a \$1 bachelor tax on unmarried men between 21 & 50

**December 21, 1991** --- Soviet Union formally dissolves 11 of 12 republics sign treaty forming Commonwealth of Independent States

## GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115

TDD service for the hearing impaired

TDD phones: 800-735-2929

Voice phones: 800-735-2922

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